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The CEO of Energean Mathios Rigas: In Gas Transaction One Must Not be Greedy

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When everyone kept their distance from the fickle Israeli energy market, Energean went against the stream and bought two small fields from Tshuva and Noble Energy's duopoly. After two years, the CEO and owner Mathios Rigas is satisfied from the purchase, which according to him is better than expectations. In this first interview he reveals the secret: "when you are honest/direct and offer a low price, the market responds. One mustn't be greedy in this market."

Until August 2016, Israel might have been considered the land of milk and honey, but in everything related to the investment of oil and gas, nobody wanted to come close to here, and this regardless of what the politicians promised. Within only 4 years, the government of Israel managed to change the regulation in the sector 3 times (The Sheshinski committee in 2011, the Zemach committee in 2013 and the gas outline in 2015), so that it is difficult to blame the foreign investors for not wanted to buy gas from us for billions of dollars.

The only player in the market was the American Noble Energy, which since it discovered the first gas field Yam Tethys in 2000, tied its fate to the fate of Israel. Together with local partners Delek and Isramco, Noble Energy became a monopoly that determined the rules of the game. Similar to other infrastructure sectors in Israel, like the water industry or public transportation, the entrepreneurs were always one step before the government - and mostly they managed to hitch the government for their own good.

But in August 2016, this situation changed. When the Greek-British company Energean immigrated and bought the Karish and Tanin fields for \$150 million. Today it is traded on the Tel Aviv and London stock exchanges. The fields were bought from the Delek Noble Energy Group, which was forced to sell them - out of the assumption that a new player in the sector, that will not have to invest money in exploration, can offer the local market a better price than that offered by the original owners.



Rigas: The political changes in Israel are nothing compared to Greece. Over the last 10 years there have been 12 ministers of Energy and each one wanted something different.

Its entry into Israel, with its fickle regulation, could be regarded as a dubious move - but the CEO of Energean, Mathios Rigas, is not flustered. “The political changes that you had, are nothing compared to what we had in Greece. Over the last decade alone, dozens of Prime Ministers there changed and 12 Ministers of Energy: one wants gas, the other doesn’t want any, the third wants oil - so we are familiar with this. In any case, oil and gas exploration is long-distance running, not something that one days from one day to the next.”

“The current minister of energy, Yuval Steinitz, made a big change in the market. From our point of view we saw a country that was close by, with the same mentality, the same politics and the same geology. In 2014, all the companies wanted to explore for oil and gas in Iran. It was bon-ton. We chose Israel because we wanted to focus in the region we know and we find good opportunities with the Karish and Tanin fields. Until now, Greece and Israel have a good relationship in energy, and there is good reason that there is talk about laying a gas pipeline from Israel to Italy via Greece”.

Were you not worried about investing money in an unstable area? Lebanon and Syria are in chaos?

I am familiar with situations of uncertainty, and from the place that I come from there were threats from Turkey for many years. Regretfully, we did not discover gas or oil in Switzerland, but in areas where there are geopolitical disagreements. I am not worried, after all we obtained \$1.7 billion to develop our gas fields. The foreign banks are also not worried. We raised money in London, and some of our investors were in fact Israeli institutionals (such as Menorah, Clal, LG, IA), and none of them are worried. There must be a reason for it”.

What was the most surprising thing you discovered when you came to Israel?

“People asked me if I thought I would be able overcome the local bureaucracy. But we submitted a development program for our fields in May 2017 and in August our program had already been approved. I was very surprised by the speed. If at the beginning of 2017, we set ourselves at least two threshold conditions to progress - the fast track development of our program, and signed gas sales contracts for a minimum of 3 bcm a year (which is ¼ of the annual consumption LG, IA) - then in actual fact we have achieved more than we anticipated and in actual fact we have achieved sales of 4.2 bcm a year, with our program having been approved very quickly. This led us to reach the decision to develop Karish and Tanin within a few years.



“Compared to our prices in the world, Israel is attractive”

The entry of Energean into the local market was at first regarded as a curiosity. The Karish and Tanin fields were discovered 6 years ago, but until now nobody had bothered to develop them because of the relatively small volume of gas in them: according to Energean the fields contain 68 bcm, a volume of gas that can suppose for the market for no more than 5 years.

If one adds to this the fact that Energean entered Israel and had to compete against two huge projects - the Tamar project of 300 bcm, which is a declared monopoly and the only gas supplier to the market, and the 600 BCM Leviathan field, that is under development, one can understand why their chances did not seem promising.

The predictions however were all proved wrong: Energean managed to “steal” away contracts from IPPs away from Delek and Noble, for a value of dozens of billions of shekels. If this did not suffice, its price broke the market, with a reduction of 25%-35% on the average price compared to the deals that had hitherto been made. In fact, within a few months, Energean declared that it had sold all its gas. “On the one hand, we were able to offer low prices because we managed to obtain the best deal in the purchasing of the equipment, and we brought a rig when the prices were at the bottom. On the other hand, I can say



that what is guiding us in the negotiations towards these prices is that one must not be greedy.”

Is there even any competition here?

“Compared to the prices that we charge, Israel is very attractive. In Europe the gas price is between \$7-8 per MMBtu, whilst LNG is even sold at \$10. Here we sold our gas at prices in the range of only \$4, and so in my view what happened to the country here is a miracle. You turned from being a country that imports gas to one that exports and is shutting down all of its coal stations, and the price we agreed in one place will be in all the places, because in your country, as soon as one agrees on a price with someone - the whole market knows about it”.

Can you be any competition to Tamar and Leviathan?

“From the factual aspect, we succeeded. We signed supply contracts amounting to 4.2 bcm a year. Our team here, headed by Shaul Zemach (former DG of the Ministry of Energy), did a good job. But the key is that there isn’t any more gas, one has to find more fields”.

How did the Israelis react when you reduce the prices you were selling to them?

“Like Israelis: they still claimed that the prices were too high”.

Maybe it is true? Maybe you and Yitzhak Tshuva, the owner of Delek, are in fact not competitors?

“I am not cooperating with Tshuva. We are very clear regarding the antitrust laws”.

In order not to compete one doesn’t have to cooperate. There is an axis - on the one hand competition, and on the other hand cooperation - and all that you need is to be on the axis, and not to bother Tshuva and not to annoy him.

“I am coming to maximize value for my shareholders, and if that annoys Tshuva, so let him be annoyed.”

Were you not scared to enter as a small player when there is an all-powerful player such as Tshuva?

“We were not scared of them and I am no scared of anything. When you are honest/direct and offer a low price - the market responds. One doesn’t have to be greedy in this business. But when one talks about competition one has to pay attention to the real competitive discussion - the competition between the countries. You are competing with Egypt, Cyprus, Greece. That is competition”.



Demonstration to distance the rig from the shore. "The secret is to turn the citizens into partners"

How can Israel win this competition?

"We discovered fields here. In Cyprus there is nothing and the demand there is low. The Cypriot field Aphrodite exists for 7 years and nobody put sat on their backs to force them to develop. In addition, the inter-state pipeline needs more gas to be discovered and clients on the other side who will buy it. But at the end of the day, it will be whoever controls the infrastructure that will win this competition".

"We are not gas explorers. Our portfolio is balanced".

From Rigas point of view, the development of Karish and Tanin is already a done fact and he is taking advantage of the interview to warn that if the government does not arrange the work in the sector, the Israeli market will remain stuck for many years.

"You don't have enough infrastructure. Leviathan will be online in about a year, and we will join in March 2021. The capacity of our pipeline is double than the volume of gas we have in our fields and in our contracts and therefor if more fields are discovered in the future, they will be able to connect to our infrastructure But we are a dot on the water, and what the state of Israel does not understand is that all the countries around - Egypt, Greece, Cyprus - all want to become a regional hub. So maybe our facility will be strategic on the country level, but it will not suffice for the long term."

In the meantime, the Ministry of Energy is promoting more gas exploration tenders. A year ago, Minister Steinitz opened the ability to explore for offshore fields, after 5 years of stagnation. The first tender was not successful, besides the fact that Energean took new licenses to explore for gas, and a consortium of 4 Indian companies took another license (but has since not done much at all to move ahead with it, LG). A month ago, the MEW opened a second tender round. If this round also fails, we may have to face the fact that we might remain with the Delek and Noble Energy duopoly.

"In the last tender, we received another 5 blocks and there is a potential there of more than 200 bcm", said Rigas. "Next March we will drill there to verify the



estimate that there is indeed gas there for the market or for exports. By then, we will have the infrastructure to develop". According to him, Energean has programs to drill 10 different wells in its licenses.

Will you submit a bid for the second tender?

"We haven't decided yet, but we must not be exposed to too many fields. We are not gas explorers, but more field developers, and therefore the portfolio must be balanced".

What is needed to succeed in gas exploration?

"A good geological team, patience, money and luck".

Drilling is a risky business, one tries and tries, how does one know when to say enough?

"We drill when there is a probability of success of 20% to discover gas, so 2 out of 10 wells will succeed and we won't get caught with too high losses. I will add to that, that drilling wells cannot be our whole business, but only part of it".

"In Greece we have rigs near the coast in touristic areas"

Rigas reminds us that Energean decided in Israel to establish a floating facility, an FPSO, at 120 km from the shore, whilst the Leviathan platform that was planned to be established in mid-sea, was transferred by a government decision to 8 km from the Dor coast, which led to huge demonstrations by the citizens of Emek Hefer and the Sharon settlements.

"In Greece, we have facilities 4 km from the coast and they are there already 30 years and in some of the cases these are very touristic areas. From my point of view, the question is not the fact of the existence of the facility, but how it is operated. From my experience, I learnt that working hand in hand with the local population helps everyone. I understand the outcry, but they are dealing with it properly - there should not be any problem. We, although we are located in mid-sea, we will still operate our infrastructure based on international and European standards, at a very high standard."

So all that has to be done is to put pressure on the government; the government will reduce the standards and it will be possible to earn more

"We at least have no intention to put pressure on anyone, and the standards that apply to us in Europe, we will apply to ourselves here. We have a commitment".



And yet, if it is possible to construct a facility 120 km from the shore, why should one put it on the shore itself?

"There is no right or wrong here. Each one of the options has advantage and disadvantages, but if the near shore option was selected, it is important to ensure its high standard to preserve the environment".

Everyone is talking about natural gas, what about oil?

"If there will be a chance to discover oil, it is possible that we will cooperate with local players, conditional on getting approval. In Karish and Tanin we will pay 7.5% in production royalties to Delek and Noble, because this was part of the gas outline, so maybe there we are a type of partners. But I want to be very clear: there are laws that forbid us to cooperate with our competitors. We came here to sell gas to the Israeli market and to create value for our shareholders. We want to be the people's share. I remind that until now, the average Israeli hears all the time that gas has been discovered but he doesn't feel the benefit in his pocket and in actual fact the electricity price is not yet falling as expected".

How do you explain that?

"If the lower prices are not rolled onwards, the problem is then in the other markets"

"First of all one covers the investment costs"

Rigas did not start his career in the oil and gas world. Although he was trained as an engineer, for many years, he worked as an investment banker. The



expertise he gained enable him to examine the energy sector from the micro point of view, what enabled him to understand what the banks want.

“Energean already exists 30 ears, but only in 2007, we bought the only oil producing asset, with our vision being to operate in the Middle East. Nearly more than a decade later, we are a business valued at more than one billion sterling pounds that is traded in London and in Tel Aviv. This is not the vision of a single man, but rather of a team that is not scared of doing.”

What is the basis of success?

“We invest here a lot of skin in the game, we are not going anywhere. Management needs to have similar interests to its shareholders; and the most important - one has to make sure that our workers share our vision, be part of the doing. The person who cleans the rig is an equal bolt in our machine, exactly like the geologist in the office”.

What is the biggest challenge that Energean had to cope with?

“In 2015 the price of oil crashed and Greece had to go into a debt arrangement. We succeeded to manoeuvre our ship through all this and to stay alive”.

How indeed does one cope with managing a company in an unstable country like Greece?

“First of all we were prepared for harsh times. We don’t have any debt at the corporate level, but only on a project basis; and when all the companies around us celebrated, we were modest. We only developed the business when the oil prices were at the bottom. The second lesson is hard work and focus - develop slowly. First of all one sells to cover the investment costs, so that you know that even if the worst case, you can survive”.

How does one cope with the fall of energy prices? You plan, but Iran and OPEC decide

“The secret is to maintain low production costs. It has already happened that the cost of producing oil in Greece was only \$20, when the price to the end client was \$27. Maintaining low costs enables you to survive. Another rule is not to leverage and to remain stable. If you leverage yourself, the day will come when the banks will run away and the investors will be on your head. I remind you, that Greece underwent a huge political and economic crisis and despite this we managed to stay afloat because BP bought the oil from us. In Israel too we are starting from a very low point and therefore we will also survive in the worst of cases.”

What direction is the energy market taking?

“I drive an electric car. I was told this is against the business, but it is like moving from taking still pictures to digital pictures. I expect that 80% of cars will run on gas, even if I don’t know yet how long it will take. However, even electric cars will have plastic components that are produced from petrochemicals, so that oil will always be needed.”



In Israel the country was to move over to electric cars and there was even a governmental declaration on this, but it doesn't seem that this will happen any time soon

"Telling people that they have to buy an electric car for environmental purposes is not enough. In London there are streets that are only open to electric cars, free parking for electric cars and tax benefits. This is the way to encourage changes at policy level".

"It annoys me that one uses people as tools for negotiations"

December was a good month for Energean, as the company won three prizes in different categories from the global oil and gas council: "The business of the year" prize for issuing the company on the premium stock market; the prize for being the "oil and gas company of the year", and the prize for "Manager of the year" to Rigas himself, who repeatedly emphasizes in his interview that the company is no longer Greek, but a global international company. "Our operations in Greece are less than 20% of our portfolio. So one can say that we are proud of our roots, but we are not there anymore".

What is happening in Greece today?

"The situation is better, thanks to a few good tourism seasons. One can say there has been a real-estate boom, but we still don't see the private sector making investments, as was promised would happen".

What is it like to live in a country with 30% unemployment?

"Very sad. You see the most skilled people leaving for other places, simply because they have no alternative."

Maybe Greece also should leave the EU?

"Leaving the EU could be extremely bad for Greece, and it is lucky that despite the people refusing the European salvation package, that it didn't lead to leaving the EU. Greece is too small a country to cope on its own. Britain can succeed this way, but Greece cannot".

Where is Europe heading towards?

"The vision and leadership that led to the establishment of the EU to start with, is no longer suitable. The leadership must give way to the new generation and a new strong leadership needs to get established. In this sense, the Brexit is interesting because it united Europe against Britain. Suddenly, Europe once again had something to unite against."

Are the refugees in Europe an opportunity or a tragedy?

"A country like Greece, which faces challenges of its own and is mainly used as a transit station, it is a tragedy, but what annoys me more is when people are used as a negotiating tool when Turkey says, 'If you do not do so, we will open the borders.'"



You are an investment banker and a geologist, what do you enjoy more?

“I like both, but to understand stones is not enough. One has to understand people. What I love the most is to come to a place, to know the people, to create a relationship of trust and to establish cooperation”.

As an investment banker, what do you think about the questions the Israeli institutionals asked when you wanted to register the company on the stock market?

“The Israeli institutionals understand very well the local market. Insofar as international business is concerned, their knowledge is lower, but that is natural: also when I went around London to raise money for here, the investors there didn't fully understand what Israel is”.

Do you already know a few words in Hebrew?

“I play football in London with 11 Israelis, they taught me a few words, but these are not words I want to repeat here”.